



OPEN MEETING

ORIGINAL

MEMORANDUM

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Arizona Corporation Commission

DOCKETED

2016 AUG 24 A 9:41

TO: THE COMMISSION

FROM: Utilities Division

AUG 24 2016

DATE: August 24, 2016

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH A RETURN.
(DOCKET NO. E-01773A-12-0305)

SUBJECT: APPLICATION FOR APPROVAL OF INITIAL ENVIRONMENTAL COMPLIANCE STRATEGY AND REVISED ECAR TARIFF.

INTRODUCTION

Enclosed are the Commission Staff's memorandum and proposed order for the application of Arizona Electric Power Cooperative, Inc. for approval of its initial ECS and revised ECAR Tariff (Docket No. E-01773A-12-0305). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by filing an original and thirteen (13) copies of the comments with the Commission's Docket Control Center at the Phoenix address listed below by 4:00 p.m. on or before **September 2, 2016**.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **September 7, 2016 at 10:00 a.m. and September 8, 2016, at 10:00 a.m.**

If you have any questions about this matter, please contact Candrea Allen of our Staff at (602) 3640235, or me, at (602) 542-7270.

BACKGROUND

On May 27, 2016, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its initial Environmental Compliance Strategy ("ECS") and revised Environmental Compliance Adjustment Rider ("ECAR") Tariff.¹ On June 1, 2016, AEPCO filed a supplemental exhibit to its initial

¹In Decision No. 75350, the Commission approved AEPCO's initial ECAR Tariff with the rates set at zero until such time that AEPCO filed an application for approval of an ECS plan and accompanying ECAR Tariff. This Decision also approved the ECAR Plan of Administration.

application which included copies of written correspondence from AEPCO's Class A members confirming consent of the application as required by the ECAR plan of administration.

AEPCO is a not-for-profit, generation and transmission cooperative that was initially granted a Certificate of Convenience & Necessity ("CC&N") by the Commission in Decision No. 33677, dated February 13, 1962. AEPCO provides generation and transmission services to three all-requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Anza Electric Cooperative, Inc.)² ("ARM" or collectively "ARMs") and three partial-requirements distribution cooperative members (Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.) ("PRM" or collectively "PRMs"). The ARMs receive all of their power and energy needs from AEPCO while each PRM only commits to purchase a fixed amount of capacity from AEPCO and may secure additional power and energy from other sources. AEPCO's board members consist of officers from each of the member cooperatives.

The ECAR is a surcharge intended to provide recovery of potential costs associated with future environmental compliance requirements established by the Environmental Protection Agency ("EPA") and any other potential obligations mandated by federal, state, and/or local environmental regulations for AEPCO's two coal-fired generating units at AEPCO's Apache Generating Station ("Apache Station"). The accompanying ECS describes the Qualified Environmental Compliance Projects ("QECs") AEPCO would implement in order to comply with the required environmental regulations. The ECAR used to fund the QECs described in the ECS applies to all of AEPCO's member distribution cooperatives.

APPLICATION

Environmental Compliance Strategy

With this initial ECS, AEPCO is addressing two environmental regulations prescribed by the EPA: (1) Regional Haze Rules and (2) Mercury and Air Toxics Standards ("MATS"). The ECS describes the QECs AEPCO developed to comply with the EPA regulations and includes estimated costs for the projects that would be collected through the ECAR.

The Regional Haze QEC calls for the conversion of Steam Unit 2 ("ST2") to natural gas-fired operation. In addition, selective non-catalytic reduction ("SNCR") technology will be installed on Steam Unit 3 ("ST3"). Once the SNCR is installed on ST3, it will continue to operate on coal. However, the use of the chemical urea will be required in order to further reduce ST3's emissions of NOx in order to comply with the Regional Haze requirements. AEPCO is requesting to recover the costs of the urea through the revised ECAR.

² Anza Electric Cooperative is located in southern California.

The MATS QECF will require the use of two chemicals: calcium bromide (an oxidizer for mercury emissions control) and activated carbon (a mercury abatement sorbent). The activated carbon absorbs the mercury in the flue gas and prevents its emission into the environment. Although both the calcium bromide and activated carbon are being used in order to comply with the MATS requirements, only the activated carbon is recovered through the ECAR.³

According to AEPCO, the process for converting ST2 to natural gas-fired operation began in April 2016. Once the conversion of ST2 to natural gas-fired operation is complete, ST2 will no longer require the use of the activated carbon. Therefore, there will be no costs for activated carbon on ST2 after 2017. However, the use of the activated carbon will continue to be required for ST3 in addition to the use of urea for ST3. The use of urea will not be required for ST3 until the beginning of 2018.

Environmental Compliance Adjustment Rider

Currently, the rates included in the ECAR Tariff are set at zero. As specified in the ECAR POA and Tariff, AEPCO would charge a fixed monthly rate for capital expenses incurred and a per kilowatt-hour ("kWh") rate for operations' expenses incurred in order to comply with environmental regulations. AEPCO is not requesting recovery of capital costs associated with the Regional Haze and MATS requirements at this time. The revised ECAR Tariff will only recover the actual costs of the activated carbon and urea incurred by AEPCO and will be billed with a one-month lag. The per kWh costs of the chemicals recovered through the ECAR will be allocated among each member cooperative based on each member's actual consumption of base resource energy for that billing month. AEPCO will track and administer the ECAR pursuant to the ECAR POA.

The annual total impact to AEPCO's member cooperatives of the activated carbon required is estimated to be between approximately \$1.60 million in 2016 and approximately \$3.20 million in 2034. For the urea required, AEPCO estimates the annual total impact to its member cooperatives to be between approximately \$1.20 million in 2018 and \$2.90 million in 2034.⁴ According to AEPCO, each member cooperative intends to recover the ECAR charges from its retail end-use customers through its respective purchased power adjustment clause. AEPCO provided Staff with estimated monthly impacts of the ECAR surcharge on the member cooperatives' residential end-use customers. The monthly impact could range from \$0.59 to \$1.76 in 2016; \$0.81 to \$2.45 in 2017; and \$0.58 to \$2.10 in 2018.

RECOMMENDATIONS

Staff has reviewed AEPCO's application and recommends approval of its initial ECS and revised ECAR Tariff. In addition, Staff recommends that AEPCO be required to file, on an annual basis, a report that summarizes the actual ECAR charges passed on to each member cooperative.

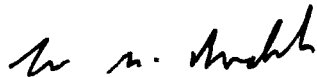
³Calcium Bromide qualifies for inclusion in RUS account 501 – Fuel, and therefore is recovered through the Purchased Power & Fuel Adjustment Clause ("PPFAC"). Activated carbon qualifies for inclusion in RUS account 502 – Steam Expenses, and therefore is recovered through the ECAR per the ECAR POA approved in Decision No. 75350.

⁴As stated earlier, once ST2 is converted to natural gas-fired operation, ST2 will no longer require the use of activated carbon.

The first report should be filed, with Docket Control, in compliance with a Decision in this matter no later than November 1, 2017. If AEPCO files a revised ECAR tariff, returning the surcharge to zero, per the POA, Staff recommends that AEPCO no longer be required to file the report if the ECAR rates remain at zero for a full 12-month period. The report should include, at a minimum, the following information:

- The actual per kWh costs for each chemical used per month during the previous 12-month period;
- Each member cooperative's base resource kWh consumption per month during the previous 12-month period; and
- The total amount each member cooperative has paid per month during the previous 12-month period.

Further, Staff recommends that AEPCO file with Docket Control, as a compliance item, a revised ECAR Tariff, consistent with the Decision in this matter within 15 days of the effective date of the Decision.



Thomas M. Broderick
Director
Utilities Division

TMB:CLA:nr\BH

ORIGINATOR: Candrea Allen

THE COMMISSION

August 24, 2016

Page 5

SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
DOCKET NO.: E-01773A-12-0305

On this 24th day of August, 2016, the foregoing document was filed with Docket Control as a Utilities Division Memorandum & Proposed Order, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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By:



Nanisha Ross
Admin Support Specialist

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 DOUG LITTLE
 Chairman
3 BOB STUMP
 Commissioner
4 BOB BURNS
 Commissioner
5 TOM FORESE
 Commissioner
6 ANDY TOBIN
 Commissioner
7

8 IN THE MATTER OF THE APPLICATION)
 OF ARIZONA ELECTRIC POWER)
9 COOPERATIVE, INC. FOR A HEARING)
 TO DETERMINE THE FAIR VALUE OF)
10 ITS PROPERTY FOR RATEMAKING)
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11 REASONABLE RETURN THEREON, AND)
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12 DEVELOP SUCH RETURN.)
13 _____

DOCKET NO. E-01773A-12-0305

DECISION NO. _____

ORDER

APPLICATION FOR APPROVAL OF
INITIAL ENVIRONMENTAL
COMPLIANCE STRATEGY AND REVISED
ECAR TARIFF.

14 Open Meeting
 September 7 and 8, 2016
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Arizona Electric Power Cooperative, Inc. ("AEPCO") is certificated to provide electric
19 service as a public service corporation in the State of Arizona

20 INTRODUCTION

21 2. On May 27, 2016, AEPCO filed an application with the Arizona Corporation
22 Commission ("Commission") requesting approval of its initial Environmental Compliance Strategy
23 ("ECS") and revised Environmental Compliance Adjustment Rider ("ECAR") Tariff.¹ On June 1,
24 2016, AEPCO filed a supplemental exhibit to its initial application which included copies of written
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26

27 _____
28 ¹In Decision No. 75350, the Commission approved AEPCO's initial ECAR Tariff with the rates set at zero until such time
that AEPCO filed an application for approval of an ECS plan and accompanying ECAR Tariff. This Decision also
approved the ECAR Plan of Administration.

correspondence from AEPCO's Class A members confirming consent of the application as required by the ECAR plan of administration.

BACKGROUND

3. AEPCO is a not-for-profit, generation and transmission cooperative that was initially granted a Certificate of Convenience & Necessity ("CC&N") by the Commission in Decision No. 33677, dated February 13, 1962. AEPCO provides generation and transmission services to three all-requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Anza Electric Cooperative, Inc.)² ("ARM" or collectively "ARMs") and three partial-requirements distribution cooperative members (Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.) ("PRM" or collectively "PRMs"). The ARMs receive all of their power and energy needs from AEPCO while each PRM only commits to purchase a fixed amount of capacity from AEPCO and may secure additional power and energy from other sources. AEPCO's board members consist of officers from each of the member cooperatives.

4. The ECAR is a surcharge intended to provide recovery of potential costs associated with future environmental compliance requirements established by the Environmental Protection Agency ("EPA") and any other potential obligations mandated by federal, state, and/or local environmental regulations for AEPCO's two coal-fired generating units at AEPCO's Apache Generating Station ("Apache Station").

5. The accompanying ECS describes the Qualified Environmental Compliance Projects ("QECPs") AEPCO would implement in order to comply with the required environmental regulations. The ECAR used to fund the QECPs described in the ECS applies to all of AEPCO's member distribution cooperatives.

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² Anza Electric Cooperative is located in southern California.

1 **APPLICATION**

2 *Environmental Compliance Strategy*

3 6. With this initial ECS, AEPCO is addressing two environmental regulations prescribed
4 by the EPA: (1) Regional Haze Rules and (2) Mercury and Air Toxics Standards ("MATS"). The ECS
5 describes the QECPs AEPCO developed to comply with the EPA regulations and includes estimated
6 costs for the projects that would be collected through the ECAR.

7 7. The Regional Haze QECP calls for the conversion of Steam Unit 2 ("ST2") to natural
8 gas-fired operation. In addition, selective non-catalytic reduction ("SNCR") technology will be
9 installed on Steam Unit 3 ("ST3"). Once the SNCR is installed on ST3, it will continue to operate on
10 coal. However, the use of the chemical urea will be required in order to further reduce ST3's
11 emissions of NOx in order to comply with the Regional Haze requirements. AEPCO is requesting to
12 recover the costs of the urea through the revised ECAR.

13 8. The MATS QECP will require the use of two chemicals: calcium bromide (an oxidizer
14 for mercury emissions control) and activated carbon (a mercury abatement sorbent). The activated
15 carbon absorbs the mercury in the flue gas and prevents its emission into the environment. Although
16 both the calcium bromide and activated carbon are being used in order to comply with the MATS
17 requirements, only the activated carbon is recovered through the ECAR.³

18 9. According to AEPCO, the process for converting ST2 to natural gas-fired operation
19 began in April 2016. Once the conversion of ST2 to natural gas-fired operation is complete, ST2 will
20 no longer require the use of the activated carbon. Therefore, there will be no costs for activated
21 carbon on ST2 after 2017. However, the use of the activated carbon will continue to be required for
22 ST3 in addition to the use of urea for ST3. The use of urea will not be required for ST3 until the
23 beginning of 2018.

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28 Purchased Power & Fuel Adjustment Clause ("PPFAC"). Activated carbon qualifies for inclusion in RUS account
502 – Steam Expenses, and therefore is recovered through the ECAR per the ECAR POA approved in Decision No.
75350.

Environmental Compliance Adjustment Rider

10. Currently, the rates included in the ECAR Tariff are set at zero. As specified in the ECAR POA and Tariff, AEPCO would charge a fixed monthly rate for capital expenses incurred and a per kilowatt-hour ("kWh") rate for operations' expenses incurred in order to comply with environmental regulations. AEPCO is not requesting recovery of capital costs associated with the Regional Haze and MATS requirements at this time. The revised ECAR Tariff will only recover the actual costs of the activated carbon and urea incurred by AEPCO and will be billed with a one-month lag. The per kWh costs of the chemicals recovered through the ECAR will be allocated among each member cooperative based on each member's actual consumption of base resource energy for that billing month. AEPCO will track and administer the ECAR pursuant to the ECAR POA.

11. The annual total impact to AEPCO's member cooperatives of the activated carbon required is estimated to be between approximately \$1.60 million in 2016 and approximately \$3.20 million in 2034. For the urea required, AEPCO estimates the annual total impact to its member cooperatives to be between approximately \$1.20 million in 2018 and \$2.90 million in 2034.⁴ According to AEPCO, each member cooperative intends to recover the ECAR charges from its retail end-use customers through its respective purchased power adjustment clause. AEPCO provided Staff with estimated monthly impacts of the ECAR surcharge on the member cooperatives' residential end-use customers. The monthly impact could range from \$0.59 to \$1.76 in 2016; \$0.81 to \$2.45 in 2017; and \$0.58 to \$2.10 in 2018.

RECOMMENDATIONS

12. Staff has reviewed AEPCO's application and has recommended approval of its initial ECS and revised ECAR Tariff. In addition, Staff has recommended that AEPCO be required to file, on an annual basis, a report that summarizes the actual ECAR charges passed on to each member cooperative. The first report should be filed, with Docket Control, in compliance with a Decision in this matter no later than November 1, 2017. If AEPCO files a revised ECAR tariff, returning the surcharge to zero, per the POA, Staff has recommended that AEPCO no longer be required to file the

⁴As stated earlier, once ST2 is converted to natural gas-fired operation, ST2 will no longer require the use of activated carbon.

1 report if the ECAR rates remain at zero for a full 12-month period. The report should include, at a
2 minimum, the following information:

- 3 • The actual per kWh costs for each chemical used per month during the previous 12-
4 month period;
- 5 • Each member cooperative's base resource kWh consumption per month during the
6 previous 12-month period; and
- 7 • The total amount each member cooperative has paid per month during the previous
8 12-month period.

9 13. Further, Staff has recommended that AEPCO file with Docket Control, as a
10 compliance item, a revised ECAR Tariff, consistent with the Decision in this matter within 15 days of
11 the effective date of the Decision.

12 CONCLUSIONS OF LAW

13 1. Arizona Electric Power Cooperative, Inc. is a public service corporation within the
14 meaning of Article XV, of the Arizona Constitution.

15 2. The Commission has jurisdiction over Arizona Electric Power Cooperative, Inc. and
16 the subject matter of the application.

17 3. The Commission, having reviewed the application and Staff's memorandum dated
18 August 24, 2016, concludes that it is in the public interest to authorize Arizona Electric Power
19 Cooperative, Inc.'s initial ECS and revised ECAR Tariff.

20 ORDER

21 IT IS THEREFORE ORDERED that the Arizona Electric Power Cooperative, Inc. initial
22 Environmental Compliance Strategy and revised Environmental Compliance Adjustment Rider Tariff,
23 are hereby approved as discussed herein.

24 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. file, on an
25 annual basis, a report that summarizes the actual ECAR charges passed on to each member
26 cooperative. The first report shall be filed, with Docket Control, in compliance with a Decision in this
27 matter no later than November 1, 2017. If AEPCO files a revised ECAR tariff, returning the
28 surcharge to zero, per the POA, AEPCO shall no longer be required to file the report if the ECAR

1 rates remain at zero for a full 12-month period. The report shall include, at a minimum, the following
2 information:

- 3 • The actual per kWh costs for each chemical used per month during the previous 12-
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8 12-month period.

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1 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with
2 Docket Control, as a compliance item, a revised Environmental Compliance Adjustment Rider Tariff,
3 consistent with the Decision in this matter within 15 days of the effective date of the Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 _____
CHAIRMAN LITTLE

COMMISSIONER STUMP

9
10
11 _____
COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS

12
13 IN WITNESS WHEREOF, I, JODI JERICH, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2016.

18 _____
JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

21
22 DISSENT: _____

23 TMB:CLA:nr/BH
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26
27
28

SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
DOCKET NO.: E-01773A-12-0305

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